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S E C R E T SECTION 01 OF 03 BRASILIA 000634

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TAGS: [PREL](#) [MASS](#) [ETTC](#) [BR](#)  
SUBJECT: BRAZIL'S FIGHTER PURCHASE: ENDGAME STRATEGY

REF: A. BRASILIA 216  
[1](#)B. BRASILIA 41

Classified By: Charge d'Affaires Lisa Kubiske. Reason: 1.4(d)

[1](#)1. (S/NF) SUMMARY AND ACTION REQUEST. With two months remaining before the Government of Brazil decides on a next generation fighter aircraft, the U.S. competitor, Boeing's F18 Super Hornet is still perceived by many Brazilians in and outside the GOB as a likely second or even third-place finisher, despite having the best aircraft and best offset package. Most Brazilian contacts tell us that they do not believe the USG is supporting the sale strongly, raising doubts in their minds about our long term reliability as a partner. Between now and July, there will be several opportunities to assure the Brazilians at senior levels that the USG will be behind the sale. Paragraphs 3-7 below contain proposed steps to address key Brazilian concerns and maximize chances for selection of the U.S. competitor. Among these steps, high level contacts, especially by the President and Secretary will be critical to overcome the perception of a lack of U.S. support. We also need to underscore our assurances that technology transfer has been approved and highlight the superiority of Boeing's proposal to that of its French competitor. As noted reftels, Embassy believes State will play a critical role in providing assurances that will be essential to a winning bid. END SUMMARY.

[1](#)2. (S/NF) As the FX2 competition moves into its final stages, the U.S. has a strong offer from Boeing for the F18 Super Hornet that comes with a huge package of industrial cooperation and a competitive overall cost. While we can be confident that the Super Hornet would be Brazil's choice based on its superior capabilities and attractive offset package, it still has no better than a fifty/fifty chance of success because of political support for the French competitor and a lingering belief among some Brazilian leaders that a close relationship with the U.S. may not be to Brazil's advantage. Winning the FX2 endgame, therefore, will depend on an effective strategy to overcome our political disadvantages and allow the Super Hornet's superiority be the deciding factor. Such a strategy must address several key issues:

Perception of a lack of USG support  
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[1](#)3. (S/NF) With the French sale effort being managed directly from President Sarkozy's cabinet and ongoing Swedish

engagement on the Ministerial level, the USG is perceived by most Brazilians as lukewarm at best in its support for the FX2 sale. This is a critical disadvantage in a Brazilian society that depends on personal relationships as a foundation for business. The difficulty is exacerbated by the separation between government and industry in the United States. We cannot, for example, offer government financing to support a state owned company as can our competitors. To address this problem, high level contacts will be essential, particularly from the Department of State which is assumed by the Brazilian Air Force to be restrictive of mil-mil cooperation. In such contacts, U.S. officials will need to highlight expanding U.S.-Brazil partnership and how cooperation with the United States as Brazil modernizes its obsolescent military will not only provide the best operational capabilities, but will enhance our overall cooperation. This is why we have been forward leaning in approving transfers of technology in support of this sale. In addition to taking advantage of the near-term opportunities for high level contacts presented by MOD Jobim,s May 20 visit to Washington And Secretary Clinton,s possible visit to Brazil in late May, Embassy believes that phone calls between Presidents Obama and Lula, between NSA Jones and Presidential Foreign Affairs Advisor Marco Aurelio Garcia, and between SecDef Gates and MOD Jobim, would boost our case significantly.

#### Tech Transfer

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14. (S/NF) Although the major decisions to approve the

BRASILIA 00000634 002 OF 003

transfer of technology for the FX2 sale have been made, Brazilian leaders continue to doubt U.S. ability to follow through. While the problem has been mitigated by an effective public affairs strategy, we still hear that, absent specific high level State Department assurances, the Brazilians cannot be sure. It may well be that the Brazilians want to keep tech transfer doubts alive in order to have a ready-made excuse for buying an inferior plane, should political leaders decide to do so. Repeated concerns about unreleasable source code could have a similar basis. Finally, we have heard that there are concerns on Capitol Hill about the possibility of a South American arms race. Should these reach Brazilian ears, there will be additional worries that Congress will intervene to block the sale. Embassy recommends the following as next steps to strengthen our case on tech transfer:

- An advocacy letter from President Obama to President Lula
- A letter from Secretary Clinton to MOD Jobim stating that the USG has approved the transfer of all appropriate technology.
- Interagency guidance on source code (cleared for April Revista Forca Area article) should be disseminated for use.
- All high-level contacts, including by Secretaries of State and Defense and POTUS should include reassurance that tech transfer has been approved.
- Washington agencies should begin consultations with appropriate Hill staff as early as possible to overcome misperceptions that arms sales to Brazil could be destabilizing.

#### Financing

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15. (S/NF) U.S. inability to offer government financing or guarantees puts the Super Hornet at a significant disadvantage to its competitors. EXIM is prohibited from engaging in sales of defense articles, leaving Brazil to depend on commercial financing at higher rates. According to Washington agencies, it would be possible to seek Congressional relief for EXIM to support the sale. This has been done in the past on rare occasions. The Brazilian Air Force finance office has told us that even a statement that

we are willing to seek such legislative action would be considered a positive sign. Embassy recommends that Washington explore the possibility of legislative action to allow EXIM Financing and respond by the May 29 deadline to the GOB request to provide information on government financing options.

#### Making the Case

¶6. (S/NF) We have been successful in getting across the points that the Super Hornet is a highly capable aircraft, and now need to focus on the broader picture -- how partnership on the fighter sale will yield benefits for both sides both in military terms and in economic benefits. As the world's largest aerospace company, Boeing is able to offer a much greater scope of opportunities for Brazilian industry, including some outside of the FX2 offset program. The early June visit of Brazilian legislators to Washington will be an opportunity to get the message to political leaders. By focusing on key Senators, we have the opportunity to bring on board individuals who can influence the decision makers and ensure that the people who will have to approve spending Brazilian government money understand that the F18 offers them the best value. Embassy will continue to highlight tech transfer and Expand our message to include economic benefits to Brazil of the Boeing proposal. We also recommend the following:

- Make an expert on the aerospace industry available for interview to highlight economic health of Boeing compared to its competitors.
- Use visit of Brazilian Congress to drive home message that partnership with the U.S. entails benefits to both sides that go well beyond offset program. Ensure that Brazilian Senators understand significantly lower life cycle costs of the Super Hornet.

BRASILIA 00000634 003 OF 003

- Arrange for an interview of the SecDef, or other senior Administration representative, with a prominent Brazilian journalist to underline importance of U.S.-Brazilian partnership and how the FX2 sale will help.

#### Attack the French Bid

¶7. (S/NF) Although the French offer a less capable fighter at a higher cost, the Rafale has been the presumptive winner since the inception of the FX2 competition. While the technical evaluations of the aircraft should result in a significant advantage for the Super Hornet, we need to take steps to erode the French political edge. While a major element of this will be highlighting Boeing's lower cost, there are several other measures that can make a case against the French. The first step will be to remind the Brazilians that their interest in the Rafale was driven by an assumption that the United States would not release technology. Since we have approved release of the relevant technology, we should ask if Brazil still needs the French as a safety. Over the last few months, the French sales effort has been based on a misleading, if not fraudulent, claim that their plane involves only French content (rendering it free of meddlesome U.S. export controls). This is not the case. A DTSA analysis found a high level of U.S. content, including targeting systems, radar components and safety systems that will require U.S. licenses. Next steps:

- Although it does not appear that the tech data provided with the French bid violated ITAR regs, PM/DDTC and DTSA should continue to monitor French marketing to ensure Dassault does not skirt ITAR restrictions.
- Investigate India's decision to drop the Rafale from its fighter competition to see if there is a reason that would make the aircraft less attractive to Brazil.
- Ensure the Brazilians are aware that we expect to be

issuing retransfer licenses for U.S.-origin components on the French plane and have already approved transfer of some technical data.

KUBISKE